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IMPACT OF THE SOVIET AUTOMOBILE PROGRAM

CENTRAL INTELLIGENCE AGENCY

DIRECTORATE OF INTELLIGENCE

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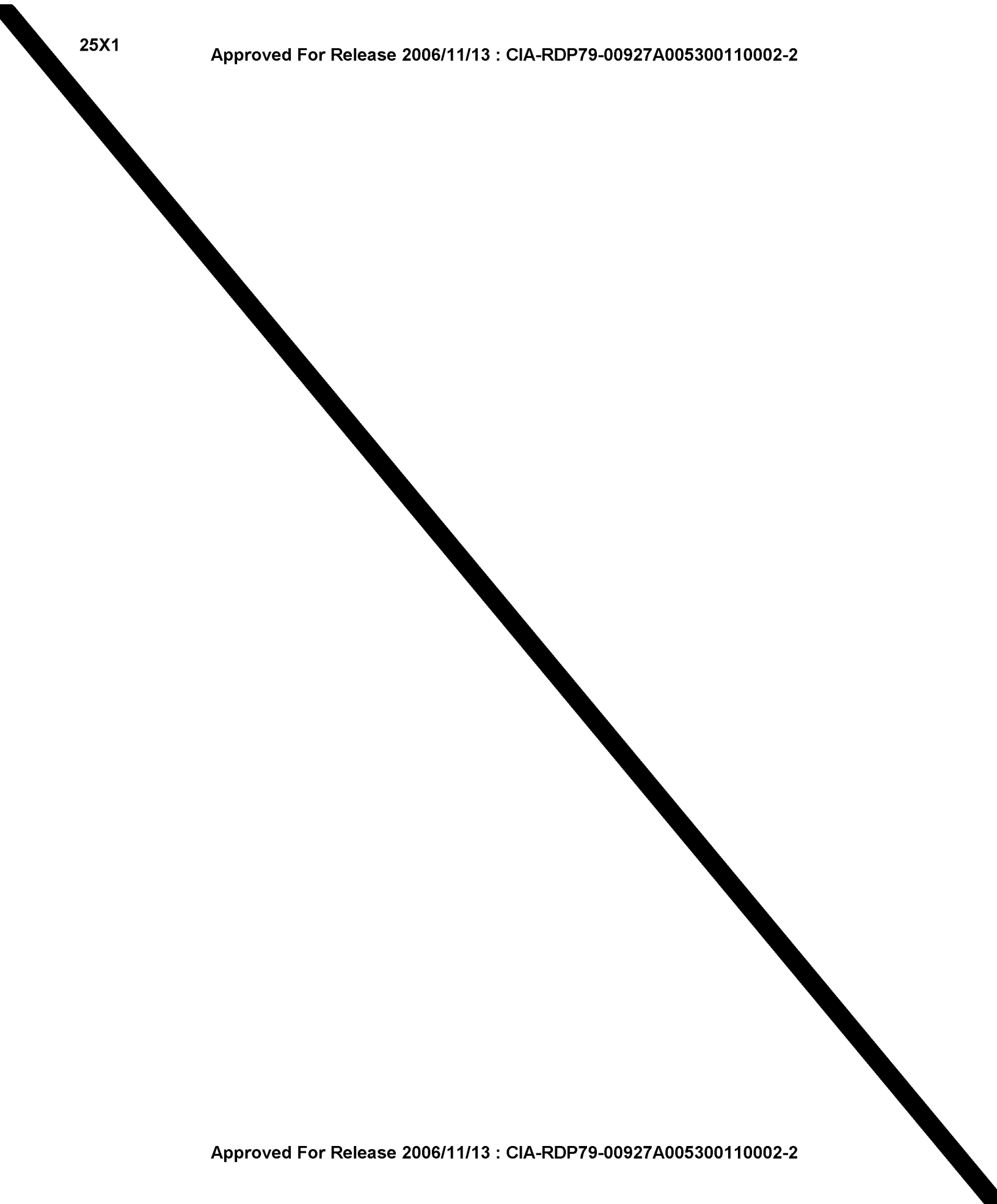

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IMPACT OF THE SOVIET AUTOMOBILE PROGRAM

One of the most interesting features of the Soviet five-year plan for 1966-70 is the approximately fourfold increase called for in the annual production of passenger cars--the stated target for 1970 is 700,000 to 800,000 units. The importance the post-Khrushchev regime attaches to this goal is underscored by the 4 May 1966 contract with Fiat of Italy. The plant to be built under this deal will be capable of producing 600,000 cars a year, but the time involved in its construction will probably postpone realization of the 1970 output goal until 1972.

The average annual rate of increase in automobile production between 1966 and 1970 that is implied by the five-year plan is 28 to 32 percent. In contrast, the production of passenger cars grew by an average of only 8 percent annually between 1961 and 1965. Also, the total number of cars produced annually in the USSR has always been well below the comparable figure for trucks, but the reverse will be true when the 1966-70 plan is fulfilled. The individual consumer will still come last with only about 40 percent of all the cars allocated to the private sector through 1969. By 1975, however, almost 60 percent of new Soviet automobiles will be for private purchase.

The automobile target for 1970 will not require significant alterations in the USSR's other economic programs because the costs of the automobile program will be only a fraction of overall industrial investment during 1966-70. The impact on the defense industry will be negligible; indeed, the automobile program will complement defense requirements by providing reserve productive capacity. The program will undoubtedly generate new investment in addition to that required for new or renovated automotive plants, but it appears certain that the Soviet regime does not now envision the development of a motor-oriented society typical of the US and other Western countries.

Table 1.
PRODUCTION AND AVAILABILITY OF AUTOMOBILES IN SELECTED COUNTRIES, 1964

	Automobiles in Use Per Million Population*	Production	Automobiles in Use**
High Automobile Use Countries			
United States	375,000	7,745,492	71,950,000
Canada	265,000	560,678	5,122,000
Australia	234,000	340,614	2,599,000
Sweden	217,000	160,106	1,666,000
France	164,000	1,390,312	7,960,000
United Kingdom	156,000	1,867,640	8,436,000
West Germany	144,000	2,650,183	8,100,000
Low Automobile Use Countries			
Italy	90,600	1,028,930	4,632,000
South Africa	58,500	143,373	1,023,000
Argentina	36,400	114,617	800,000
Belgium	21,400	327,899	201,000
Spain	20,800	119,000	652,000
Japan	17,300	579,660	1,672,000
U.S.S.R.	4,000	185,200	919,000

* Based on population at midyear rounded to three significant digits.
** Based on automobile registrations except for USSR, which is estimated.

The Auto in Soviet Society

The USSR's belated entrance into the automobile age will mark an important turning point in the course of Soviet economic development. Production of passenger cars in the USSR has increased gradually from 50 in 1928--a year that saw nearly 4 million automobiles roll off Detroit's assembly lines--to 201,200 units last year. Compared with demand and production in other countries, the USSR's 1965 level of output is minute (see Table 1).

According to present plans, there will be about 16,600 automobiles per million population in the USSR by 1975. This will be a considerable improvement over the present, but it will still be lower than the 1964 level in any of the countries listed in Table 1. Moreover, the portion of the USSR's new cars put to administrative and military use or exported during the coming decade will decline only from the present 60 percent to about 40 percent in 1975.

The slow development of the Soviet auto industry is the result of policy decisions made by Stalin and carried on by Khrushchev. Khrushchev often said that the mass production of passenger cars for private use was a "weakness" of capitalism that the USSR would avoid. A highly developed rail system was to be the major carrier of freight and interurban passengers with public transport, taxis, and car rentals taking care of city traffic. The partial failure of this system, together with such considerations as the need for greater personal incentives and a means to absorb excess purchasing power, underlies the reversal of the traditional Soviet position on automobiles.

Premier Kosygin has been the most explicit spokesman for increased automobile production. His reasoning, as expressed publicly, indicates that simple cost calculations entered into the decision to step up the output of passenger cars during the next ten years. In March 1965, for example, Kosygin said:

ESTIMATED AUTOMOBILE PRODUCTION, INVENTORY, AND DISPOSITION IN THE USSR

Thousand Units

Table 2: PRODUCTION[a]	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Volga	56	58	60	63	66	70	75	80	85	90
Moskvich	74	83	88	90	100	120	140	160	180	200
Zaporozhets	48	57	67	76	84	90	95	100	100	100
Izhevsk	0	8	30	50	80	100	100	100	100	100
Fiat	0	0	0	5	100	250	400	500	600	600
TOTAL[b]	206	234	273	312	458	658	838	968	1,093	1,118
Table 3: INVENTORY										
Starting Inventory	1,004	1,085	1,180	1,298	1,436	1,676	2,051	2,534	3,078	3,676
Production	206	234	273	312	458	658	838	968	1,093	1,118
Imports[c]	2	2	2	2	2	2	2	2	2	2
Exports[d]	47	54	63	72	105	151	193	223	251	257
Scrappage[e]	80	87	94	104	115	134	164	203	246	294
Year-End Inventory[f]	1,085	1,180	1,300	1,440	1,680	2,050	2,530	3,080	3,680	4,250
Table 4: DISPOSITION OF NEW AUTOMOBILES										
Production	206	234	273	312	458	658	838	968	1,093	1,118
Exports[d]	47	54	63	72	105	151	193	223	251	257
Imports[c]	2	2	2	2	2	2	2	2	2	2
Official, Military, and Commercial Use	77	87	102	116	156	204	233	239	236	207
Private Use[g]	84	95	110	126	199	305	414	508	608	656

a. Based on a study of the past performance of the Soviet automobile industry, the current five-year plan for the industry, recent press announcements, and a study of the individual automobile plants.

b. Including production of 100 ZIL-111s, 200 Chaikas and 28,000 GAZ 69s annually.

c. Assuming a constant 2,000 units.

d. Assuming a constant 23 percent of production, from the same level 1961-1964.

e. Assuming a constant 8 percent of starting inventory.

f. Figures may not total because of rounding.

g. Assumed to be a constant 52 percent of the figure arrived at when exports and imports are netted out of production through years 1966-1969. After 1969 the figure increases by 4 percent per year, reflecting a larger share of automobiles available to private individuals.

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> You know how staunchly the idea was imposed that there was no necessity in our country to develop the production of passenger automobiles on a large scale. Let all people ride only in buses, so to speak. Everything has been done to deprive even the leaders of big enterprises and economic organizations of the right to use passenger cars.... The result has been that many leaders have been compelled to use trucks unlawfully for their official rides. An apparent saving was made on transport costs, but in fact damage was inflicted on our economy....

This rationale for the new emphasis on automobiles also indicates that private individuals will continue to be at the bottom of the priority list for new cars. Demand by individuals even now far outstrips supply, and there is little prospect that this situation will be changed, at least until well into the 1970s.

Prospective Production and Inventory

Table 2 shows estimated annual production of Soviet automobiles through 1975. More than half the cars produced in 1975 are expected to come from the Fiat plant, which will probably not be operating at designed capacity until 1974 (see Figure 1). This is the major factor in the estimate that the 1970 automobile target contained in the 1966-70 plan will not be reached until 1972. A new, smaller plant at Izhevsk to be constructed with domestic resources will begin production on a token scale this year, but will accelerate its level of output rapidly until 1971 when it probably will be operating at full capacity.

The older and, in many respects, outmoded facilities producing the Moskvich, Volga, and Zaporozhets automobiles are to be expanded and modernized. The inevitable delays and disruption involved in retooling these plants will also contribute to postponing the 1970 goal until 1972. Capacity now employed in producing the prestigious Zil-111 and Chaika models as well as that used for manufacturing the jeep-like GAZ 69 will not be enlarged, according to present plans.

The total stock of public and privately owned automobiles in the USSR is now estimated at slightly more than one million. This is comparable to the number of cars in the Republic of South Africa in 1964, or in Kentucky in 1965. An inventory of two million cars will probably not be reached before 1971, and the total stock available in 1975--more than four million units--will be only about half the number of automobiles now in California (see Table 3).

The serious shortcomings in service outlets and spare parts will continue to reduce

Figure 1

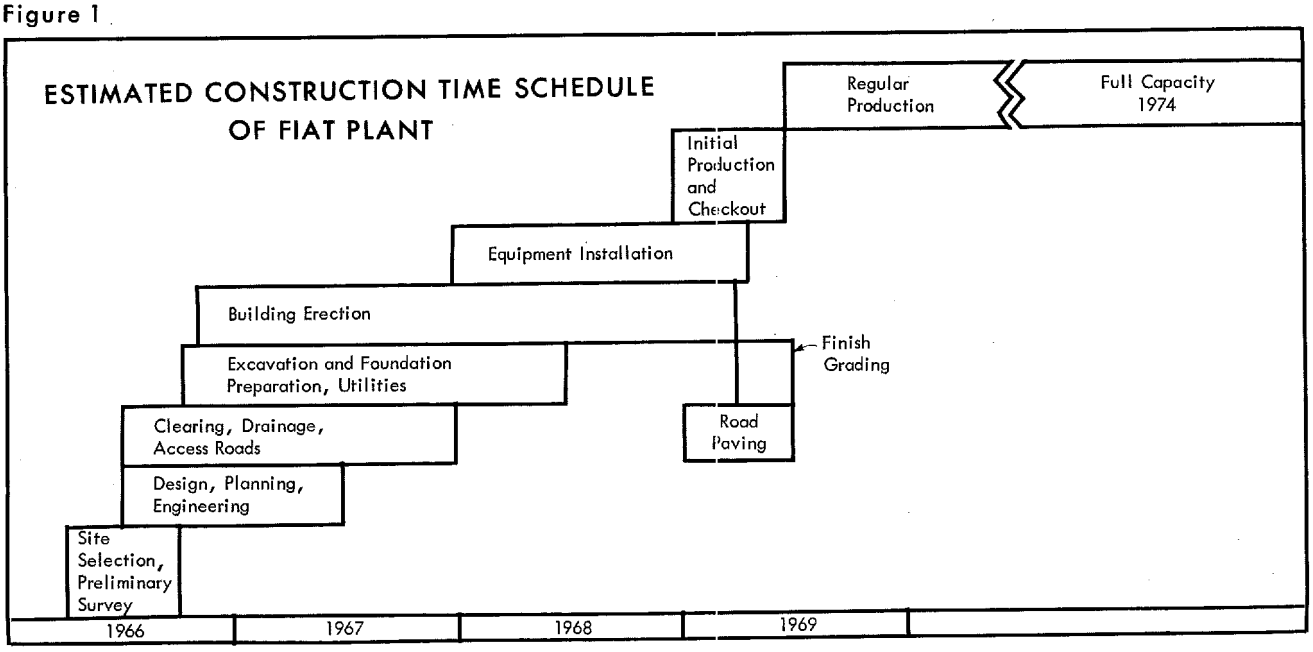
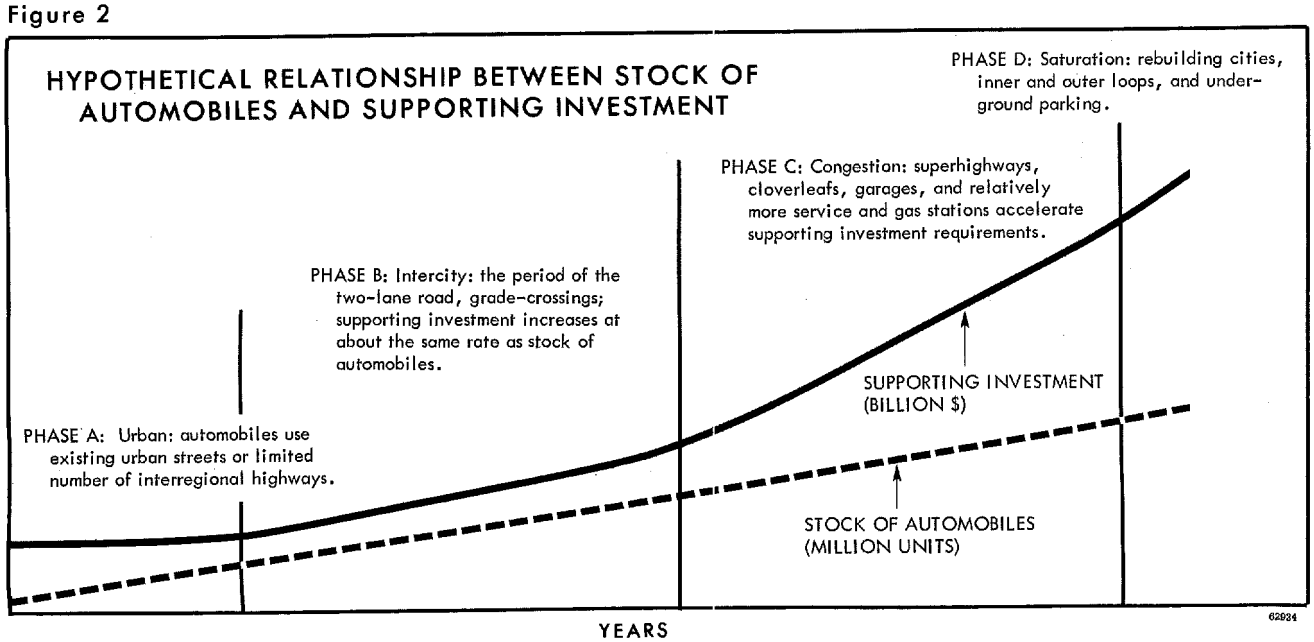


Figure 2



The overall shape of the supporting investment curve will be dependent on the total area and population of the country, its geography, and distribution of automobiles between rural and urban ownership. Present Soviet plans still place the USSR within PHASE A. Western Europe is entering PHASE C. The US as a whole is within PHASE C, but parts of the East Coast of the US are within PHASE D.

considerably the actual number of automobiles operable at any given time in the USSR. About one fifth of the present inventory--or approximately 200,000 cars--is believed to be out of service on a regular basis awaiting repairs. This is roughly the total number of automobiles produced in the USSR in 1965, the best year in the Soviet automotive industry. The servicing problem, furthermore, is not expected to improve appreciably during the coming decade, and it could even deteriorate as production accelerates in the 1970s.

The number of automobiles available to the individual consumers is expected to increase more than sevenfold between 1966 and 1975, yet new cars reaching the private sector in the final year will be only slightly more than half a million (see Table 4).

Direct Investment

The 1975 production level of 1.1 million cars will necessitate an estimated $1.2-billion investment in new buildings, equipment, and directly associated support facilities. Two thirds of this will be for the Fiat plant, with the remainder to be allocated for renovating old facilities and installing new capacity.

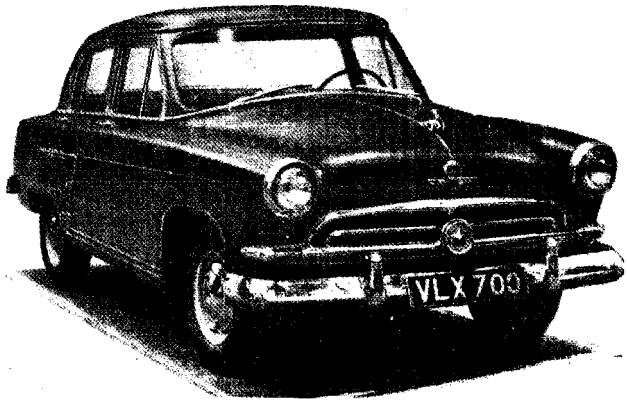
Soviet production plans imply that about $900 million of the $1.2-billion total will have to be spent by 1970. While substantial, the $900-million figure nevertheless represents only one half of one percent of the total investment in Soviet industry and only four or five percent of estimated investment in the machine-building sector anticipated during 1966-70. This sum can clearly be allocated without involving a major shift in other investment plans--such as the agricultural recovery program--or cutting back on any of the present and prospective military and space programs. The favorable terms of the Fiat contract, furthermore, will spread the repayment burden over eight years beginning in 1971.

Other Costs

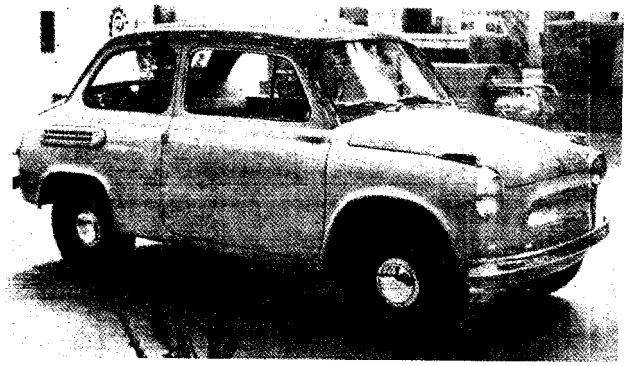
A number of Soviet industries will have to increase their production of materials, metals, and equipment needed by the expanding automobile industry. However, this will impose little strain on the USSR's industrial capacity, which will be growing during this period. In sharp contrast to the US, moreover, where about one quarter of the steel produced annually, 60 percent of the rubber, and 35 percent of the zinc go to the motor vehicle industry, in the USSR such percentages are extremely small except for rubber and bearings. Even in these items the comparable figures are well below those for the US or other countries with a developed automobile industry.

On the basis of the US experience, the Soviet automobile "aftermarket"--gas, tires, batteries, accessories, repair, and maintenance--could grow to as much as one half of the value of new car sales annually. The distortions in Soviet prices,

MODELS OF SOVIET AUTOMOBILES

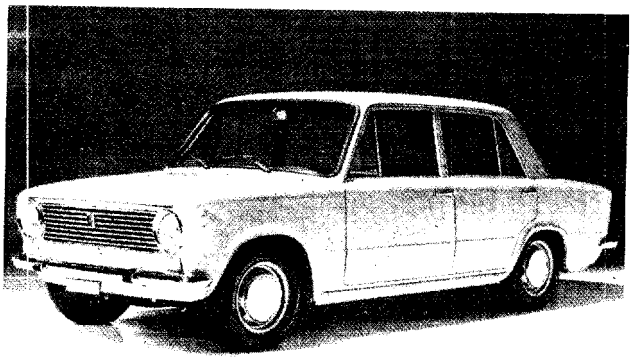


VOLGA- Largest car available to the public; retail price $6,000 plus.



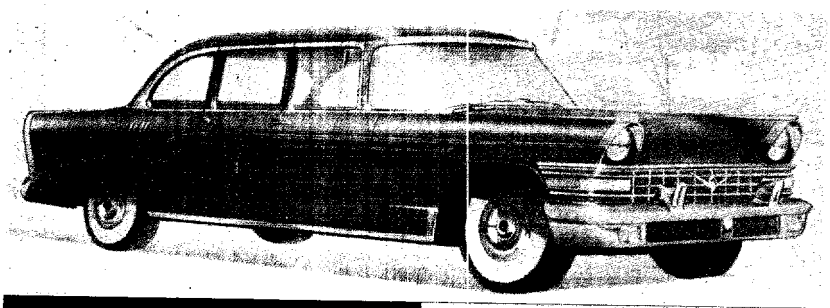
ZAPOROZHETS- Smallest and most unpopular Soviet car; retail price about $1,500.

MOSKVICH 408- Popular model of the Moskvich line; retail price about $5,000.



FIAT 124- Comparable to the Moskvich 408; a likely choice for the Fiat plant.

ZIL III



CHAIKA

Prestigious models produced in limited quantities exclusively for the Soviet elite; no quoted prices.

particularly the very high retail cost of new automobiles, makes this comparison with the US somewhat inexact, but it is obvious that the output of such products and servicing facilities will have to keep pace with the growth of the USSR's stock of automobiles. The number of gas stations, garages, and repair shops in the USSR today is barely adequate to handle the requirements placed on them by the small number of Soviet cars now on the road.

Expansion of the Soviet automobile industry will involve more than direct and associated costs. In return for these outlays the USSR will acquire an industry that has traditionally been a powerful stimulus for technological progress in a variety of industrial sectors. This industry has consistently demanded advanced technology, high productivity, and the utmost in dependability in the machinery and equipment it purchases. Aside from the credit considerations, the Fiat deal points up how deficient the USSR is in this regard. Stated simply, the fact is the Soviets had to go abroad if they wanted to expand their automotive industry rapidly. The rumored contract with Renault to modernize the Moskvich plant is another case at point.

Ramifications

Although the USSR is committed to the rapid expansion of its automobile industry, it is clear that Moscow does not at this time intend to allow the development of a motorized society characteristic of the US and most of Western Europe. The US inventory of more than 70 million cars and 13 million trucks and buses generates almost $70 billion annually in sales, repair, and servicing. One out of every seven wage earners is in some way employed by the US automobile industry, and expenditures on increasing the present US network of more than 2.7 million miles of surfaced highways are accelerating. In contrast, only 9 percent, or 73,500 miles of the USSR's 832,000 miles of roads in 1964 were paved. No major roadbuilding program is planned during 1966-70.

In the US, the passenger car has permitted a vast inner migration which has opened up the cities and brought the countryside closer than in any other country. As Figure 2 shows, the costs involved in supporting this development begin accelerating once phase C is reached. This phenomenon will exert powerful pressure on the Soviet planners to restrict the effects of their decision to enter the automobile age. Potential repercussions in the social and political spheres will also lead the USSR to proceed slowly in developing even a partially motorized society.

With the increased mobility afforded by the automobile, the USSR will have to revise its system of internal security. At present a series of restrictions and registrations governs the travel of all citizens outside their home city or rural area. Such a system has been workable as long as trains and planes are

the major carriers, but it is apparent that the increasing ownership of private automobiles will inject a new and at present perplexing element into the security system.

More cars will also increase smuggling, peddling, and black-marketeering in the USSR. These are already serious problems due to the poor quality, amount, and assortment of consumer goods, the existence of regional price differentials, and the availability of subsidized transportation to take advantage of them. These activities, furthermore, are more odious in the Soviet Union than elsewhere because they are thought to arise out of the failings of capitalism. 25X1

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(Prepared by the Office of Research and Reports)

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